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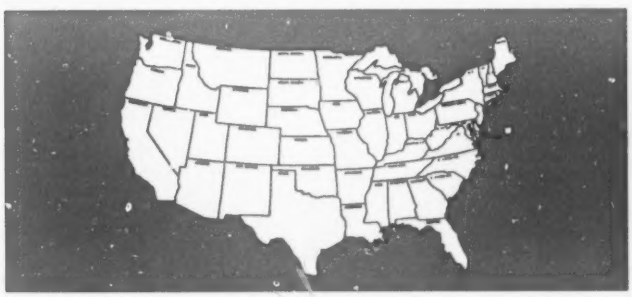

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ON THE COVER

Going for the record! An application has been filed with the Guinness Book of World Records for recognition of this vehicle traveling interstate as: the longest unit, the heaviest and largest payload; and movement of a GCW in excess of 700,000 lb the longest distance.

It's 262-ft long, 18-ft wide, 21-ft high, and over 700,000 lb. The autoclave, a pressure vessel used to process gold from ore, was moved 275 miles from Salt Lake City to Carlin, Nev. The JXS heavy hauler, of modular construction, was built by Jake's International, Las Vegas.

It included a Peterbilt tractor with a 700-hp Cummins engine and an Allison automatic transmission. The "pusher" tractor has a 15-ft push bar of 6-in. diameter steel tubing. It carried 25,000 lb of ballast for traction at its drive wheels. □

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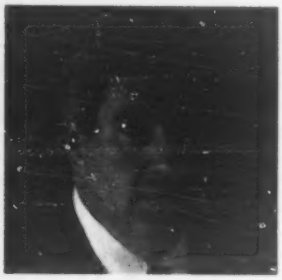

'Big guys have 80% of good LTL freight'

By PARRY DESMOND Executive Editor 215-964-4529

Someone once defined maturity as "not the absence of conflict, but knowing how to cope with it." Perhaps that definition best describes the perspective of the less-than-truckload (LTL) market presented by Richard Holt, a vice president-senior trucking analyst, based in First Wheat Securities' Philadelphia offices.

The LTL sector is now a mature market because the national fleets garnered most of the good traffic in recent years by offering high quality service. That makes service "a commodity, and pricing becomes a key variable," claimed Holt at a seminar conducted in March by Economic and Planning Inc. (ECAP) of New York City.

In the LTL market between 1980 and 1986, added Holt, "the weak got weaker and the strong got stronger." That happened because the six major LTL fleets—Yellow, Consolidated Freightways, Roadway, Overnite, Carolina and ABF—significantly increased their volume, allowing them to lower unit costs.

With the possible exception of ABF, which has tremendous debt service as the result of a leveraged buyout several years ago, the big guys are "in good financial shape," observed Holt. Their profit position could be attributed to the majors' discounting strategy based on costs falling faster than the reduced rates, said Holt.

But by 1987, most of the attractive freight had been captured by the major fleets who now control about 80% of the LTL market, said Holt. And the other LTL carriers have to survive with the marginal traffic that's left.

Consolidation completed

Since the consolidation process is essentially completed, opportunities to cut costs have diminished. In fact, noted Holt, costs have been creeping back up for the past three years, while discounting continued.

As a result, "profits have declined dramatically," said Holt.

To boost profits, two rate increases were published this year. January's increase was "good, but it's being discounted away," he said. Discounting "has to stop," asserted Holt. The recent, 5% second hike "was the worst thing," claims Holt. That's because shippers "will demand a 52% discount, completely negating" the rate increase.

And higher rates will open the door to more competition from the railroads and consolidators. Holt was more optimistic about the regional LTL marketplace. He said the regional fleets are still "immature" because their sector offers great opportunity for economies of scale via consolidation and growth.

Truckload market

Holt took issue with many securities analysts who recently have pooh-poohed TL stocks because their growth rates have slowed down to 20%, after several years of 35% to 40% growth.

He disagreed with Wall Street's second thoughts about J.B. Hunt, based in Lowell, Ark. Holt also pointed out that Hunt's earnings are *only* 8%, and its operating ratio is still under 90%, while most TL carriers are barely surviving.

As a group, successful TL fleets like Hunt have snared 15% of the $15 billion market, contends Holt. They are core carriers who "get premium prices for premium service." □

Forecast of U.S. economic sectors that have a key impact on trucking (percent changes)

	1988	1989	1990F	1991F	1992F	1993F	1994F	1995F
Grain Production	-25.4	35.2	6.8	5.1	3.7	3.5	3.4	3.3
Retail Trade	1.9	1.9	1.3	2.0	2.7	2.6	2.5	2.5
Wholesale Trade	4.7	2.0	0.7	2.6	3.2	4.1	3.4	3.2
Manufacturing	6.1	3.7	-0.1	2.6	3.4	4.2	3.3	3.0
Mining	2.9	-1.3	0.7	1.5	2.5	1.9	1.7	1.7
Construction	1.4	-1.3	-1.8	3.9	4.4	2.7	1.6	1.3
Lumbering	-3.5	-1.0	1.3	2.4	2.3	1.5	1.2	1.0
Oil/Gas Drilling	0.0	-7.2	10.0	7.0	7.3	7.0	7.0	7.0
Motor Carriers	5.4	1.1	-2.4	2.9	3.5	4.4	3.3	3.2

This data was collected by ECAP (Economic Planning & Consulting Inc.) of New York City. Other sources accessed for forecast information include: The Federal Reserve Board, the U.S. Department of Commerce, and the U.S. Department of Agriculture.

HOW DO YOU SPELL RELIEF? L-E-

Tax law changes, lean-spirited corporations' desire to dump trucking assets, seemingly no-win environmental rules, testy hiring requirements for a shrinking pool of candidates. Leasing firms say they can relieve those headaches. Read on to learn about the time-tested treatments leasing companies say will cure many of trucking's ills.

By PARRY DESMOND
Executive Editor

The solution isn't new, but some of the problems are: there are tax law changes that truckers are just beginning to get a handle on; lean-spirited corporations that insist transportation managers take trucking assets off the books; environmental rules that seem to make maintenance a no-win situation; and testy hiring requirements that exacerbate the problem of coping with a shrinking pool of qualified candidates for driver and mechanic positions.

The list of trucking's headaches appears almost endless. But leasing companies claim they can provide relief for many of those headaches.

Ownership is "a luxury"

"Pride of ownership is crap. It's a luxury. It's the old way of doing business," asserts Larry Miller, president of Ruan Transportation Management Systems, headquartered in Des Moines, Ia.

"There's no good reason for a large corporation to have trucks on its balance sheet," contends Ed Blickstein, executive vice president of Lend Lease Trucks, headquartered in Minneapolis.

Since large corporations' focus is on capital and resources that are critical to their business, continues Blickstein, "they're using the leasing option to reduce debt and unload assets that aren't critical to their operation. The issue is return on assets," he concludes, because the current tax law encourages the purchase of assets that appreciate in value and the leasing of equipment that depreciates.

"I can't have my operating capital tied up in depreciating equipment," says Duane Long, president of Long Transportation Services, which hauls pharmaceuticals, medical equipment and electronic products cross-country. The Raleigh, N.C.-based, for-hire carrier has full-service-leased 15 Kenworths from PacLease.

Revenue growth parallels GNP

Although many carriers have hopped on the leasing bandwagon, the industry's recent revenue growth has only paralleled the Gross National Product, claims Gordon Bowker, a principal in Bowker, Brown & Co., the Miami-based consultancy that specializes in truck leasing.

The sidebar entitled "Significant Market Consolidation," shows that the significant revenue gains enjoyed by major lessors in the 1980s essentially can be attributed to mergers and acquisitions.

And Bruce Bone, executive director of the Amtralease, a network of independent lessors based in Chesterfield, Mo., estimates that leasing and rentals have increased from 18%-20% of the truck market in the last decade to in excess of 30% today. But profits have been flat. And when profits average 4%, Bone claims, many leasing

companies won't survive when the economy hits a down cycle.

Bearing in mind that leasing never was a high-margin business, Bowker attributes a major part of the industry's profit problems to Ryder's low rates.

However, Bowker expects Ryder to more than double its dominant market share in 1990, compared to 1980. And with revenues projected to reach $3.2 million this year, Ryder will continue to be the market leader. Thus, claims Bowker, "as Ryder goes, so goes the market."

Cost-cuts via quality programs

Although some lessors hope the rates have hit bottom, Mike Galardi of Temple, Barker & Sloane, the Lexington, Mass.-based consultancy which works with the Truck Rental and Leasing Association, suspects many leasing companies can reduce costs further by establishing formal quality improvement programs.

Galardi said leasing customers which have formal quality programs may pressure the lessors to establish the systems. He noted that only Ruan is fully involved in the quality movement, while some parts of the Ryder System have adopted formal quality processes, and a few regional lessors "are playing with" the concept.

Leasing companies that don't soon start working on a formal quality process in the 1990s "won't be around long," claims Ruan's Miller.

Galardi also noted that competition will force leasing companies to become "more financially astute" when accessing capital. He thinks they'll have to consider sources outside the U.S.

And Galardi "has a gut feeling" that there will be additional consolidation in the industry.

Although many lessors aren't wildly optimistic about leasing's revenue and profit projections, GE Capital's recent accomplishments and expectations can justify uncorking some champagne.

GE Capital grows 800%

In 1982, General Electric Capital only had a 5% share of trucking's net leasing market, according to Jim McKay, manager of marketing of the Commercial Financing operation.

Net leasing only covers the financing of the equipment, the maintenance, taxes or insurance. A finance lease—also called a capital lease (as described in the companion article, A Layman's Lexicon of Leasing Language)—is the primary type of net lease offered in the truck marketplace.

Since 1982, the Stamford, Conn.-based net lessor's business has grown about 800%, McKay claims. He estimates that "at least 20%" of that growth has come, unsolicited, from existent customers. Last year, GE's net leasing of truck equipment increased more than 16% compared to 1988.

TRAC leasing

Until recently, TRAC leasing made up about 95% of GE's net leasing market.

TRACs get their name from the terminal rental adjustment clause, which was validated as a true lease in 1984. The TRAC provision permits or requires an adjustment at the end of the lease period when the unit is sold by the lessor. Since a TRAC lessee is willing to absorb part of the projected residual value risk, the monthly fee is lower than it would be with a standard true lease.

TRAC leases had been particularly popular with for-hire carriers because the guaranteed residuals

Continued

minimized ownership risk at a time when sophisticated technology and increased size and weight options were newly available. And during the 1984-88 period, trucks' values were truly declining because of low inflation, said McKay.

As a result, many for-hire carriers – not traditional lessees – were TRAC-leasing equipment until recently. Carriers continued TRAC-leasing even after the 1986 Tax Reform Act repealed the investment tax credit (ITC) and changed depreciation schedules.

Although lessors absorbed some of the losses created by federal tax reform legislation in 1986, said GE's McKay, lease rates had to increase after the ITC was repealed.

While credit-worthy common carriers had been paying net lease rates that were two or three points below the prime rate, the loss of ITCs has resulted in rates that are at the prime rate or even higher, says Bowker.

Bowker, the consultant, noted that ITC carry-forwards are running out, creating a "fairly substantial" liability for the 1989 tax year.

Today, only about 20% of GE's net leases are TRACs, says McKay. Standard true leases – sometimes called fair market value leases – are more appealing because ownership risks have declined. That's because inflation is starting to creep up again, and lessors have a higher level of confidence after several years' use of new, high-tech power equipment and bigger trailers, explains McKay.

Another reason TRACs are becoming less popular is because net lessors can make more profit on fair market value leases which have lower payments, says Gary Snyder, president of Alpha Financial Services, Minneapolis.

Snyder also noted that lower rates are available to lessees who get higher projected residual values because their equipment spec's include goodies like big engines and air-ride suspensions, thus enhancing their marketability in the used truck market.

Truck dealers find TRAC leases appealing because of current low interest rates, says Gordon Hellowell, Mack's manager of leasing. Since most dealers take advantage of all the available depreciation, explains Hellowell, they "sell" the truck to a bank, which gets the unit off the dealer's books. Then the bank TRAC-leases the truck back to the dealer's leasing company. And then the dealer's leasing operation can use either a finance or full-service lease to market the truck.

TRACs are less attractive to carriers, added Hellowell. That's because the soft used-truck market forces the lessee to prefer a lower projected residual value in order to minimize risk at the end of the lease term. So, although a lessor might promote a 25% guaranteed residual value – $15,000 – on a 4-year, TRAC lease of a $60,000 tractor, most potential lessees would prefer a 20% – $12,000 – guaranteed residual value.

John Badey, treasurer, Strick Financial Services, Fairless Hills, Pa., has seen a shift away from a finance lease – such as a TRAC – to outright purchasing of trailers. In addition to the loss of the ITC, Badey suspects the shift to buying is a result of more money available at comparatively low interest rates despite an inflation rate that's begun to creep up.

Having mechanics travel in a mobile service unit to a lessee's facility to do preventive maintenance work is a marketing strategy which Transamerica Trailer Services, Piscataway, N.J., uses to attract and keep customers.

AMT Tax

Another way the 1986 Tax Reform Act affected leasing was its provision for the alternative minimum tax (AMT). (For a detailed explanation of the AMT tax, see A Layman's Lexicon of Leasing Language.)

The AMT has just begun to have

Significant market consolidation

There was significant turmoil in the truck leasing marketplace in the 1980s. Hertz Penske Truck Leasing, Reading, Pa., purchased the full-service leasing division of Leaseway Transportation Corp., Cleveland, in 1986. The acquisition, for an undisclosed sum, included Leaseway's 12,000 vehicles and 144 sales and service locations, plus four leasing subsidiaries.

In 1987, GE Capital, Stamford, Conn., acquired Gelco Corp., based in Eden Prairie, Minn. The $250 million cash transaction provided GE, one of the nation's largest diversified financial services, with entry into full-service truck leasing.

After Penske Corp. bought out Hertz' interest in the truck leasing company in 1988, the GE Gelco and Penske leasing operations were combined.

Following a failed merger attempt in 1988, Lend Lease Trucks Inc., Minneapolis, and Whiteford NationaLease Div. of Whiteford Transport Systems, South Bend, Ind., merged last year. The new operation is the nation's fourth largest truck leasing and rental corporation with over 8,500 vehicles, 124 locations and combined annual revenues in excess of $225 million.

Despite those mergers, Miami-based Ryder Systems continues to be the nation's largest full-service lessor. In fact, it doubled its share of the market in the 1980s. Acquisitions by Ryder in the last decade included Saunders System Inc. of Birmingham, Ala., in a $100 million friendly takeover in 1986, and in 1989, Atlas Trucking Inc. of Grand Rapids, Mich., whose 3,000 vehicles at 23 service centers generated $44 million in revenues last year.

The figures in the chart below, provided by Bowker, Brown & Co., Miami, spell out the shifts among the major lessors between 1980 and 1990. Total revenue in the truck lease-rental market grew from $7.8 billion in 1980 to $11 billion 1990. The 1980 total includes fuel program revenue.

	1980 Revenue (Millions)	1980 Market Share	1990 Projected Revenues (Billions)	1990 Projected Market Share
Ryder	$1,125	14.4%	$3,200	29.9%
U-Haul	$400	5.1%	$600	5.5%
Leaseway	$270	3.5%	(Now part of Penske)	
Hertz	$223	2.9%	(Now part of Penske)	
Saunders	$168	2.2%	(Now part of Ryder)	
Rollins	$113	1.5%	$340	3.1%
LendLease	$80	1.0%	$230 (Merged w/Whiteford)	2.1%

an impact on leasing because it's difficult to project, claims McKay. Thus, carriers "usually don't realize they're in an AMT situation until after the fact," says McKay.

Companies that have been expanding their physical facilities are more likely to get into an AMT situation.

The formula used to determine the AMT is expected to be simplified because it's so complicated.

The AMT also can cancel an apparent tax advantage for purchasing—namely, the shortening of the time frame when companies can recoup equipment investments.

Perceptions

Although leasing continues to grow and the idea of leasing "doesn't scare people any more," claims Amtralease's Bone, leasing still has some image problems.

Doug Slack, senior vice president sales and marketing of Ryder System's Commercial Services, made the following observations, based on a market research study for Ryder on potential customers' perceptions of leasing:

• Many potential clients think a major lessor doesn't want to lease trucks to a small operation. However, like most lessors, Ryder's typical customer leases just three or four trucks.

• Although leasing rates are 20% to 30% lower than pre-1980 rates, many fleetmen still perceive leasing as more expensive than ownership. That's because, adds Slack, the typical trucker's leasing perspective often is limited to acquisition of a truck. They don't consider the economies of scale and management expertise that a major lessor can offer a small operator who probably couldn't otherwise afford them.

• Many truckers think they will lose control of their equipment costs when they have a full-service lease. But Slack points out that cost data a lessor can provide usually is superior to what has been or could be generated in-house by the lessee. In fact, the lessee will have more control of the trucking operation because the better information provides greater cost-predictability and reliability, resulting in improved spec'ing in the future.

• Potential clients often perceive a lease vs. purchase solely as an asset decision. But a lease creates opportunities for savings most fleets can't take advantage of because they don't have the purchasing leverage.—e.g. lower insurance, parts and fuel costs.

• Sometimes a fleet is reluctant to sign a full-service lease because the drivers may get upset about the quality of maintenance performed by a third party, the lessor. However, many lessors' shops are better-managed and their mechanics are better trained than many fleets' shops.

Despite those image problems, leasing provides a plethora of protective options that carriers find more attractive than ever. That's because trucking has become a hassle, particularly for private fleets

Continued

These two beverage trucks are full-service leased by Rollins. Leasing their vehicles allows Buffalo Rock, Birmingham, Ala., the country's largest privately-owned Pepsi-Cola bottler, to focus on its primary business.

which historically have been the leasing industry's primary customer-base.

And because they provide numerous support services to respond to those challenges, many lessors are beginning to recognize that they're in the service business, not just the truck business.

In addition to finding and keeping qualified drivers and mechanics, fleets now have to contend with new environmental regulations covering underground storage tanks, and disposal of used oil, solvent, batteries and tires. Instead of coping with those new complications on their own, many companies are shutting down their private fleets and letting lessors worry about those problems.

State and federal regulations concerning underground storage tanks (USTs) have created a "good-news, bad-news" situation, according to Jim Feenstra, marketing manager of Penske Trucking, a GE subsidiary.

Feenstra says UST regulations are "positive for leasing," even though Penske expects to fork out about $6 million to upgrade its own UST systems.

Many private fleets become interested in full-service leasing when they consider the option of spending as much as $250,000 to dig up just one old tank, remediate the surrounding contaminated area and install a new UST system, explains Feenstra.

New underground storage tank regulations have generated new revenues for Rollins Leasing, according to Neil Vonnahme, vice president of sales. The opportunity to buy fuel "at our cost," says Vonnahme, has attracted new full service lease customers. And some established clients have shut down their fueling operations and signed up for the fuel program, too.

To attract and retain clients, leasing companies also must start responding to customers' "informational services," says Vonnahme. Training tools would be especially helpful to small lessees that don't have expertise in government regulations related to the environment, explained Vonnahme.

Recently, the Wilmington, Del.-based firm introduced a training program to help lessees' drivers pass the federal Commercial Drivers License (CDL) test. Rollins also is considering developing a training program on how to comply with new DOT drug testing regulations.

And TIP (Transportation International Pool), a trailer lessor headquartered in Bala Cynwyd, Pa., recently established a program to help clients combat drivers' drug and alcohol abuse.

Based on information gleaned from focus groups made up of drivers and dispatchers, research determined that drug abuse—including inappropriate use of legally prescribed pills like Valium—often is a symptom of stress. That's why participants in TIP's "Steer Clear" program receive printed training materials designed to help improve drivers combat stress, as well as avoid substance abuse, by improving their lifestyles, according to a TIP spokesperson.

Meeting informational needs is not limited to full service lessors' marketing strategy. PHH Fleet America, a net lessor, helps clients spec equipment and set up contract maintenance programs, says Dave Zuidema, of PHH's product management department in Hunt Valley, Md.

Spec'ing as a marketing tool

Since clients often perceive trailers as a commodity, AJF Leasing, St. Louis, Mo., decided about five years ago to use equipment spec'ing as a marketing tool in order to focus on the top end of the market, according to Steve Havens, division manager.

As a result of that strategy, AJF has added numerous Fortune 500 customers to its customer-base with high-grade spec'ing. About 50% of its trailers include top-of-the-line items such as air-ride suspensions, low-profile radial tires, hardwood scuffboards, non-asbestos brake linings, reflective tape.

Chuck Lawson also uses high-grade spec'ing as a marketing tool. Lawson is president of Bright NationalLease of Dallas, an affiliate of NationalLease, an organization of independent lessors.

Litehouse Corp., a rapidly expanding salad dressing firm in Sandpoint, Id., dicovered it would cost $196,000 annually to buy, maintain and run each new power unit, and the company needed capital to upgrade and expand production facility. So, it signed a full-service lease with PacLease. The lease provided a $6,000 savings on each of four new Kenworth T600s over five-years. Since Litehouse has a shop, minor maintenance is performed there. But other service on units already owned by Litehouse, as well as the leased equipment, is done by PacLease. That arrangement resulted in a $22,000 (-28%) drop in maintenance costs.

His leasing operation spec's Class 8 tractors—particularly Peterbilts—with "lots of chrome, fancy interiors and big sleepers" because they can help lessees attract drivers.

And Rick Ciesielka, senior vice president for operations, McDonnell Douglas Truck Services, Fort Washington, Pa., noted that fleets that own and maintain a small number of units are signing full-service leases because they don't have the volume of equipment needed to attract training by major vendors. Thus, the little truckers' mechanics have less of an opportunity to learn the intricacies of the new electronic systems under the hood.

Currently, McDonnell Douglas' mechanic training program totals about two weeks annually, said Ciesielka.

Driver leasing

Every time there's a new regulation that impacts drivers, it causes fleets to consider driver leasing, says Bill Hollis, general manager of Leaseway Personnel, the nation's largest driver leasing company, headquartered in Cleveland.

Although there has been limited growth in the driver leasing field over the past five years, Hollis expects drug and CDL testing to have a positive impact.

Bob Hanley, manager of marketing and personnel for Transpersonnel, Milwaukee, expects interest in driver leasing to "snowball" as the new regulations are implemented over the next two years.

Hanley also noted that single source leasing—a lease that bundles drivers and vehicles—never took off because contract carriage "makes more sense."

He does not expect the driver shortage to be rectified "for at least five years. Our recruiting costs are going through the roof," says Hanley. "We used to just put the word out that we were looking for people and they'd come. Now we spend $600 to $1,000 to get the right person."

In the meantime, suggests Hanley, freight rates should be increased in order to offer higher wages. Prior to deregulation, he claims, "drivers used to get 30¢ a mile. Now they get 18¢ a mile and they're out on the road much longer."

More dealers interested

Truck dealerships lost a significant chunk of leasing business they once controlled, but didn't focus on to leasing companies, says Carl Sorensen, who works in the finance section the GMC Truck Division's Leasing and Fleet Department.

Major lessors captured business from dealers in recent years because they better understood leasing and didn't perceive it solely as a tool to market trucks. They also have been able to offer value-added services, such as a fuel program, that many dealers just cannot offer competitively, said Sorensen.

However, since truck dealerships' profit margins have declined in the 1980s, they now consider leasing as an opportunity that can no longer be ignored, he added.

Truck dealerships are more flexible than the major lessors because they can offer finance and full-service leases, according to Francis Cook of Ford Motor Co.'s heavy truck leasing operation.

Dealers are coping with tighter profit margins by putting more emphasis on the leasing end of the business, claims Cook.

But instead of expecting traditional sales people to also focus on leasing trucks, Ford dealers are hiring people who didn't survive post-merger consolidation when major lessors' sales staffs were consolidated, according to Dick Mooney, another Ford heavy truck leasing manager. □

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